



Leadership is our business

Associated Industries of Massachusetts

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August 25, 2008

Mary L. Cottrell, Secretary
Massachusetts Department of Public Utilities
One South Station, 2nd Floor
Boston, MA 02110

Re: Comments of Associated Industries of Massachusetts to Memorandum issued by the Department of Public Utilities to Increase Funding for Residential Energy Efficiency Programs for 2008

Dear Ms. Cottrell:

Associated Industries of Massachusetts (AIM) is pleased to submit the following comments in response to filings of the Program Administrators (PA's) as a result of the July 25, 2008 Department of Public Utility (DPU) Memorandum requesting PA's file plans to increase funding for residential heating energy efficiency programs for the remainder of 2008. AIM attended and participated in the meetings that the DPU held on July 29th, 2008.

AIM is the largest employer association in Massachusetts. AIM's mission is to promote the well-being of its more than 7,000 members and their 680,000 employees and the prosperity of the Commonwealth of Massachusetts by improving the economic climate, proactively advocating fair and equitable public policy, and providing relevant, reliable information and excellent services. Although we do not represent the residential sector, there are significant cross subsidies from the Commercial and Industrial (C&I) sector to the residential sector under current law and therefore it is our concern that money be spent wisely even in the residential sector. Our comments will largely focus on plans submitted by the electric utilities although some of the principles can also be applied to plans submitted by the gas utilities.

AIM opposes short term reactions to what appear to be temporary events. This memorandum questions the need and approach regarding the proposal. In fact, since this memorandum was issued, new electric rates for C&I customers have decreased almost 25% reflecting lower fuel costs, and it is likely that residential electricity costs will track

that decrease as well when residential basic service rates are readjusted shortly, well before the heating season is fully underway. When those rate levels first peaked in the spring, AIM knew of no formal submittals to increase spending on any efficiency program even though a proposal at that time would have given the PA's more time to react. Natural gas has also seen similar declines, minimizing the need for reactionary measures.

Although these temporary price spikes sent shock waves felt by residential and many business customers, the actual impact on electric residential heating customers (the subject of this memorandum) was nonexistent since obviously there was no need for heat in the spring and summer. Even the general increases for residential electricity customers were slight (and in fact C&I customers saw significantly larger increases).

This does not mean, of course, that we should abandon cost effective energy efficiency programs as rates in Massachusetts are near the most costly in the country and long-term efficiency gains are important. It does mean that the DPU should resist well intentioned but zealous calls for more funding with short timelines because any action to increase or accelerate efficiency programs should be well-thought out, stable, measured, and most importantly cost effective. Simply spending more money, especially under an artificial calendar deadline, does not always result in better programs. The DPU should always take the long view and resist attempts to use temporary events to rush judgment and change smoothly running programs.

As this proposal is being reviewed, the Department must consider its decision in the context of funding limits imposed under the Green Communities Act which does not allow automatic increases in electric efficiency spending. In January, 2009 potential new revenue will be available to the electric efficiency programs as a result of the carbon allowance auction under the Regional Greenhouse Gas Initiative (RGGI). Almost all of this money is directed at electric energy efficiency under the new Green Communities Act (a provision which AIM supported).

The Department should also keep in mind what the PA's indicated at the July 29th meeting - that ramping up the existing program on short notice is very difficult due to the lack of infrastructure. This will also be an issue next year when the increased funding occurs, especially since the 2009 PA efficiency plans will be transitional plans not subject to the to review by the new energy efficiency advisory council created under the Green Communities Act as the council does not have oversight of such plans until 2010.

With these concerns in mind we believe that PA resources would be better spent trying to establish new programs for next year when more money will be available, rather than spending their time trying to meet an artificial deadline. On the other hand, should the Department find that additional monies/programs are needed this year the following guidelines should be considered:

- For electricity customers, additional monies should be directed only to residential heating, as originally intended. The Department should reject

any reimbursement for expansion of this program to residential lighting, additional general audits or other non-heating activities as these programs are less cost effective and do not contribute to a significant reduction in electricity heating costs and can be delayed until next year.

- C&I programs should not be included in this program since the lead time on many programs is long and it may be more advantageous to wait until the additional funding and expanded programs are put in place next year and subsequent years as part of the new energy law.
- No additional administrative costs should be allowed for PA's since the administrative overhead should be easily managed within the existing infrastructure.
- Additional monies for the short term program should be borrowed from the 2009 budget and reimbursed from the RGGI auctions as we believe there will be excess money in next year's budget that will not be easily or effectively spent in the 2009 efficiency year.
- Since this program is geared toward the residential sector, the money should be allocated from the future revenues from that sector only in accordance with current law. Cross subsidies should not be allowed.

In sum, we believe that rushing additional projects and funding into the remainder of this year rather than waiting until next year (when more money is available and more thoughtful programs can be established) will result in less effective programs. However, should the Department decide to accelerate spending, we believe the programs should be implemented with a minimum amount of overhead, targeted at residential heating, and be funded from the 2009 budget.

As mentioned earlier the same general set of principles should be applied to program submittals by the gas utilities.

Should you have any questions please do not hesitate to contact me at 617-262-1180.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Robert A. Rio". The signature is fluid and cursive, with the first name "Robert" being more prominent than the last name "Rio".

Robert A. Rio, Esq.
Senior Vice President
Government Affairs